PLEASE RETURN

STATE OF MONTANA
DEPARTMENT OF REVENUE

FINANCIAL STATMENTS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 1980
with
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CONDUCTED UNDER CONTRACT
by
FOX & COMPANY

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

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DEPARTMENT OF REVENUE

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

ELLEN FEAVER, C.P.A
DEPUTY LEGISLATIVE AUDITOR

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

November 1980

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Department of Revenue for the year ended June 30, 1980.

The audit was conducted by Fox and Company under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

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MONTANA DEPARTMENT OF REVENUE
LIST OF ADMINISTRATIVE OFFICIALS

Mary Craig	Director
John M. Clark	Deputy Director
Don Bentson	Administrator Audit and Accounting Division
None	Recovery Services Division
J. Vaughan Barron	Administrator Legal Division
Leon Messerly	Administrator Liquor Division
Kenneth K. Morrison	Administrator Income Tax Division
Gerald Foster	Administrator Corporation Tax Division
Jack Gribble	Administrator Property Valuation Division
James Madison	Administrator Miscellaneous Tax Division
Norris Nichols	Administrator Motor Fuels Tax Division
Joe Meyer	Administrator Operations Division
John C. Vaughn	Administrator Investigations Division
Tom Stoll	Administrator Inheritance Tax Division
Roger Linnell	Administrator Research and Information Division

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Legislative Audit Committee
The Montana State Legislature
Helena, Montana

We have examined the financial statements of the various funds and the General Fixed Assets Account Group of the Montana Department of Revenue as listed in the foregoing table of contents as of June 30, 1980 and for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the individual income, corporation license and income, and the inheritance tax revenues and the related accounts receivable of the Income Tax, Corporation Tax and Inheritance Tax Divisions, whose statements reflect total revenues and accounts receivable constituting 65.8% and 75.8% respectively, of the fiscal year ended June 30, 1980 totals. These revenues and accounts receivable were examined by the Office of the Legislative Auditor whose report thereon has been furnished to us and is presented following our report, and our opinion expressed herein, insofar as it relates to the amounts included for these revenues and accounts receivable, is based solely upon the report of the Office of the Legislative Auditor.

Most of the Income Tax Division compliance program for individual taxpayers relates directly to the Internal Revenue Service's compliance program for individual taxpayers. Due to the provisions of the State's contract with the Federal government, the Office of the Legislative Auditor was denied access to the results of the Internal Revenue Service's compliance program and the State's follow-up of compliance exceptions. It was therefore not practicable for the Office of the Legislative Auditor to satisfy themselves with respect to the individual income tax revenues beyond the amounts recorded as received and shown in departmental records.

As discussed in Note 7 to the financial statements, the Department is a defendant in a lawsuit challenging the constitutionality of the Montana Coal Severance Tax. The Montana Supreme Court has ruled in favor of the Department; however, plaintiffs have appealed the case to the United States Supreme Court. Department officers and counsel believe the Department has

(Continued)

a good chance of prevailing, but the ultimate outcome of the lawsuit cannot presently be determined. Accordingly, no provision for liability, if any, has been made in the financial statements.

In our opinion, based upon our examination and the report of the Office of the Legislative Auditor, subject to the effects of such adjustments, as might have been required had the outcome of the uncertainties referred to in the two preceding paragraphs been known, if any, the financial statements designated above present fairly the financial position of the various funds and the General Fixed Assets Account Group of the Montana Department of Revenue at June 30, 1980, and the results of operations of such funds and changes in fund equities and financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Boise, Idaho
September 26, 1980

Fox + Company

STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

ELLEN FEAVER, C.P.A.
DEPUTY LEGISLATIVE AUDITOR
JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the individual income, corporation license and income, and inheritance tax revenues and the related accounts receivable of the Income Tax, Corporation Tax and Inheritance Tax Divisions of the Montana Department of Revenue as of June 30, 1980 and for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Most of the Income Tax Division compliance program for individual taxpayers relates directly to the Internal Revenue Service's compliance program for individual taxpayers. Due to the provisions of the state's contract with the federal government, we were denied access to the results of the Internal Revenue Service's compliance program and the state's follow-up of compliance exceptions. It was therefore not practicable for us to satisfy ourselves with respect to individual income tax revenues beyond the amounts recorded as received and shown in departmental records.

In our opinion, the accompanying schedules, subject to the effects, if any, of the matter discussed in paragraph two of this opinion, present fairly the revenues and accounts receivables of the Income, Corporation, and Inheritance Tax Divisions at June 30, 1980 and for the year then ended, in conformity with generally accepted accounting principles which have been applied on a basis consistent with that of the preceding year.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, CPA
Legislative Auditor

August 29, 1980

MONTANA DEPARTMENT OF REVENUE

COMBINED BALANCE SHEET - ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP

JUNE 30, 1980

	Governmental Fund Types				Proprietary Fund Type
	General	Earmarked Revenue	Sinking	Federal and Private Revenue	Revolving
ASSETS					
Cash	$10,340,645	$567,394	$18,055	$66,257	$ 965,019
Accounts receivable	-	-	-	-	24,464
Allowance for uncollectible accounts	-	-	-	-	-
Inventories (Note 2)	-	-	-	-	9,623,675
Prepaid expenses and advances	22,037	1,000	-	131	47,836
Investments, at cost (Note 3)	-	-	-	-	-
Property held in trust	-	-	-	-	-
Fixed assets (Note 4)	-	-	-	-	479,184
Accumulated depreciation	-	-	-	-	(166,440)
Total assets	$10,362,682	$568,394	$18,055	$66,388	$10,973,738
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable and accrued liabilities	$ 555,251	$154,055	$ 5,673	$51,684	$ 2,939,071
Revenue collected in advance	896,700	-	-	-	-
Deferred revenue	-	-	-	-	-
Accountability for property held in trust	-	-	-	-	-
Due to other fund groups	-	-	-	-	-
Total liabilities	1,451,951	154,055	5,673	51,684	2,939,071
Contingent liabilities (Note 7)	-	-	-	-	-
Fund equity:					
Investment in general fixed assets	-	-	-	-	-
Retained earnings	-	-	-	-	8,034,667
Fund balances:					
Reserved for encumbrances	55,047	-	-	2,232	-
Unreserved	8,855,684	414,339	12,382	12,472	-
Total fund equity	8,910,731	414,339	12,382	14,704	8,034,667
Total liabilities and fund equity	$10,362,682	$568,394	$18,055	$66,388	$10,973,738

The accompanying notes are an integral part of the financial statements.

Fiduciary Fund Types				Account Group	Totals (Memorandum Only)
Federal and Private Grant Clearance	Bond Proceeds and Insurance Clearance	Trust and Legacy	Agency	General Fixed Assets	June 30, 1980
$ 4,232,326	$6,772	$ 19,408	$ 358,886	$ -	$16,574,762
7,764,853	-	-	1,357,614	-	9,146,931
-	-	-	(1,357,614)	-	(1,357,614)
-	-	-	-	-	9,623,675
-	-	-	-	-	71,004
17,336	-	56,149,888	-	-	56,167,224
-	-	-	540,187	-	540,187
-	-	-	-	884,710	1,363,894
-	-	-	-	-	(166,440)
$12,014,515	$6,772	$56,169,296	$ 899,073	$884,710	$91,963,623
$ 888,925	$ -	$ -	$ -	$ -	$ 4,594,659
-	-	-	-	-	896,700
7,764,853	-	-	-	-	7,764,853
1,633,405	-	-	-	-	1,633,405
1,727,332	6,772	56,169,296	899,073	-	58,802,473
12,014,515	6,772	56,169,296	899,073	-	73,692,090
-	-	-	-	-	-
-	-	-	-	884,710	884,710
-	-	-	-	-	8,034,667
-	-	-	-	-	57,279
-	-	-	-	-	9,294,877
-	-	-	-	884,710	18,271,533
$12,014,515	$6,772	$56,169,296	$ 899,073	$884,710	$91,963,623

MONTANA DEPARTMENT OF REVENUE

COMBINED STATEMENT OF REVENUES AND EXPENDITURES

ALL GOVERNMENTAL AND PROPRIETARY FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 1980

	Governmental Fund Types			
	General	Earmarked Revenue	Sinking	Federal and Private Revenue
Revenues:				
Taxes	$175,252,927	$128,315,734	$25,298,864	$ -
Income and collections	4,542	-	-	864,444
Licenses and permits	1,730,068	20,115	-	-
Fiduciary and trust	-	31,963	-	-
Federal assistance	-	-	-	148,876
Sales of merchandise	6,729	-	-	-
Other	7,998	24,891	-	-
	177,002,264	128,392,703	25,298,864	1,013,320
Expenditures:				
Director's Office	89,652	315,646	-	-
Audit and Accounting	409,891	-	-	15,714
Recovery Services	185,984	-	-	582,840
Legal	177,268	-	-	102,153
Liquor	-	1,218,248	-	-
Income Tax	1,368,215	-	-	-
Corporation Tax	425,506	-	-	-
Property Valuation	6,842,337	-	-	133,687
Miscellaneous Tax	259,230	15,680	-	-
Motor Fuels Tax	-	405,976	-	-
Operations	224,394	-	-	-
Investigations	52,456	-	-	40,561
Inheritance Tax	112,255	31,717	-	-
Homestead Tax Relief	9,917,692	-	-	-
Research and Information	359,254	-	-	-
	20,424,134	1,987,267	-	874,955
Excess of revenues over expenditures	156,578,130	126,405,436	25,298,864	138,365
Other financing sources (uses):				
Operating transfers in	5,500,887	-	-	-
Operating transfers out	(153,930,140)	(126,036,265)	(25,412,366)	-
Total other financing sources (uses)	(148,429,253)	(126,036,265)	(25,412,366)	-
Excess of revenues over (under) expenditures	$ 8,148,877	$ 369,171	$ (113,502)	$ 138,365

The accompanying notes are an integral part of the financial statements.

Proprietary Fund Type	Totals (Memorandum Only)
Revolving	Fiscal Year Ended June 30, 1980
$ 1,431,712	$330,299,237
48,193,020	49,062,006
-	1,750,183
-	31,963
-	148,876
80,940	87,669
3,000	35,889
49,708,672	381,415,823
-	405,298
20,708	446,313
-	768,824
-	279,421
33,599,975	34,818,223
-	1,368,215
-	425,506
-	6,976,024
-	274,910
-	405,976
85,388	309,782
182,897	275,914
-	143,972
-	9,917,692
450,893	810,147
34,339,861	57,626,217
15,368,811	323,789,606
-	5,500,887
(15,048,854)	(320,427,625)
(15,048,854)	(314,926,738)
$ 319,957	$ 8,862,868

MONTANA DEPARTMENT OF REVENUE

COMBINED STATEMENT OF REVENUE COMPARED WITH REVENUE ESTIMATES

ALL GOVERNMENTAL AND PROPRIETARY FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 1980

	Taxes	Income and Collections	Licenses and Permits
Governmental Fund Types:			
General Fund:			
Estimated	$179,393,782	$ -	$1,785,071
Actual	175,252,927	4,542	1,730,068
Variance - favorable (unfavorable)	(4,140,855)	4,542	(55,003)
Earmarked Revenue Fund:			
Estimated	130,231,972	-	30,500
Actual	128,315,734	-	20,115
Variance - favorable (unfavorable)	(1,916,238)	-	(10,385)
Sinking Fund:			
Estimated	26,770,030	-	-
Actual	25,298,864	-	-
Variance - favorable (unfavorable)	(1,471,166)	-	-
Federal and Private Revenue Fund:			
Estimated	-	625,886	-
Actual	-	864,444	-
Variance - favorable (unfavorable)	-	238,558	-
Proprietary Fund Type:			
Revolving Fund:			
Estimated	1,652,289	48,593,604	-
Actual	1,431,712	48,193,020	-
Variance - favorable (unfavorable)	(220,577)	(400,584)	-
Total - all funds:			
Estimated	338,048,073	49,219,490	1,815,571
Actual	330,299,237	49,062,006	1,750,183
Variance - favorable (unfavorable)	$ (7,748,836)	$ (157,484)	$ (65,388)

The accompanying notes are an integral part of the financial statements.

Fiduciary and Trust	Federal Assistance	Sales of Merchandise	Other	Totals
$ -	$ -	$ 4,600	$ 9,823	$181,193,276
-	-	6,729	7,998	177,002,264
-	-	2,129	(1,825)	(4,191,012)
32,032	-	-	70,000	130,364,504
31,963	-	-	24,891	128,392,703
(69)	-	-	(45,109)	(1,971,801)
-	-	-	-	26,770,030
-	-	-	-	25,298,864
-	-	-	-	(1,471,166)
-	556,842	-	-	1,182,728
-	148,876	-	-	1,013,320
-	(407,966)	-	-	(169,408)
-	-	5,000	-	50,250,893
-	-	80,940	3,000	49,708,672
-	-	75,940	3,000	(542,221)
32,032	556,842	9,600	79,823	389,761,431
31,963	148,876	87,669	35,889	381,415,823
$ (69)	$(407,966)	$78,069	$(43,934)	$ (8,345,608)

MONTANA DEPARTMENT OF REVENUE

COMBINED STATEMENT OF EXPENDITURES, ENCUMBRANCES AND OPERATING TRANSFERS OUT
COMPARED WITH APPROPRIATIONS
ALL APPROPRIATED FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1980

	General Fund			
	Appropriations	Expenditures	Encumbrances	Appropriations Balances
Director's Office	$ 99,095	$ 89,652	$ -	$ 9,443
Audit and Accounting	410,118	409,891	-	227
Recovery Services	187,928	185,984	-	1,944
Legal	177,319	177,268	-	51
Liquor	-	-	-	-
Income Tax	1,368,215	1,368,215	-	-
Corporation Tax	438,843	425,506	-	13,337
Property Valuation	6,907,248	6,842,337	39,756	25,155
Miscellaneous Tax	267,458	259,230	-	8,228
Motor Fuels Tax	-	-	-	-
Operations	230,433	224,394	3,641	2,398
Investigations	57,750	52,456	-	5,294
Inheritance Tax	120,523	112,255	-	8,268
Homestead Tax Relief	10,000,000	9,917,692	-	82,308
Research and Information	372,817	359,254	11,650	1,913
	$20,637,747	$20,424,134	$55,047	$158,566

	Federal and Private Revenue Fund			
	Appropriations	Expenditures	Encumbrances	Appropriations Balances
Director's Office	$ -	$ -	$ -	$ -
Audit and Accounting	16,500	15,714	-	786
Recovery Services	626,712	582,840	2,232	41,640
Legal	147,019	102,153	-	44,866
Liquor	-	-	-	-
Income Tax	-	-	-	-
Corporation Tax	-	-	-	-
Property Valuation	157,079	133,687	-	23,392
Miscellaneous Tax	-	-	-	-
Motor Fuels Tax	-	-	-	-
Operations	-	-	-	-
Investigations	52,464	40,561	-	11,903
Inheritance Tax	-	-	-	-
Homestead Tax Relief	-	-	-	-
Research and Information	-	-	-	-
	$ 999,774	$ 874,955	$ 2,232	$122,587

The accompanying notes are an integral
part of the financial statements.

Earmarked Revenue Fund

Appropriations	Expenditures	Encumbrances	Appropriations Balances
$ 331,403	$ 315,646	$ -	$ 15,757
-	-	-	-
-	-	-	-
-	-	-	-
1,470,327	1,406,938	-	63,389
-	-	-	-
-	-	-	-
-	-	-	-
30,385	15,680	-	14,705
418,258	405,976	-	12,282
-	-	-	-
-	-	-	-
31,963	31,717	-	246
-	-	-	-
-	-	-	-
$ 2,282,336	$ 2,175,957	$ -	$106,379

Revolving Fund

Appropriations	Expenditures	Operating Transfers Out	Appropriations Balances
$ -	$ -	$ -	$ -
20,708	20,708	-	-
-	-	-	-
-	-	-	-
48,648,829	33,599,975	15,048,854	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
115,000	85,388	-	29,612
182,897	182,897	-	-
-	-	-	-
-	-	-	-
477,530	450,893	-	26,637
$49,444,964	$34,339,861	$15,048,854	$ 56,249

MONTANA DEPARTMENT OF REVENUE

COMBINED STATEMENT OF CHANGES IN FUND BALANCE/RETAINED EARNINGS

ALL GOVERNMENTAL AND PROPRIETARY FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 1980

	Governmental Fund Types				Proprietary Fund Type	
	General	Earmarked Revenue	Sinking	Federal and Private Revenue	Revolving	Totals (Memorandum Only)
Fund balance/retained earnings at July 1, 1979	$ 949,249	$ 48,275	$125,884	$(116,727)	$7,714,710	$ 8,721,391
Fiscal year ended June 30, 1979 encumbrances expended during fiscal year ended June 30, 1980	(187,395)	(3,107)	-	(6,934)	-	(197,436)
Excess of revenues over (under) expenditures	8,148,877	369,171	(113,502)	138,365	319,957	8,862,868
Fund balance/retained earnings at June 30, 1980	$8,910,731	$414,339	$ 12,382	$ 14,704	$8,034,667	$17,386,823

The accompanying notes are an integral part of the financial statements.

MONTANA DEPARTMENT OF REVENUE

STATEMENT OF CHANGES IN FINANCIAL POSITION

REVOLVING FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1980

Financial resources were provided by:	
Excess of revenues over expenditures	$ 319,957
Add depreciation not affecting working capital	51,569
	371,526
Financial resources were applied to:	
Purchase of fixed assets	30,413
Increase in working capital	$ 341,113

Increase (decrease) in elements of working capital:	
Cash	$ (305,433)
Accounts receivable	(8,712)
Inventories	(471,677)
Prepaid expenses and advances	3,487
Accounts payable and accrued liabilities	1,123,448
	$ 341,113

The accompanying notes are an integral part of the financial statements.

MONTANA DEPARTMENT OF REVENUE

COMBINED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

ALL FIDUCIARY FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 1980

	Balance July 1, 1979	Additions	Deductions	Balance June 30, 1980
Federal and Private Grant Clearance Fund				
ASSETS				
Cash	$ 3,190,579	$12,420,651	$11,378,904	$ 4,232,326
Accounts receivable	7,686,664	10,762,022	10,683,833	7,764,853
Inter-entity loans receivable	82,688	-	82,688	-
Investments, at cost	(10,896)	28,232	-	17,336
	$10,949,035	$23,210,905	$22,145,425	$12,014,515
LIABILITIES				
Accounts payable and accrued liabilities	$ 41,420	$ 850,000	$ 2,495	$ 888,925
Deferred revenue	7,686,664	10,762,022	10,683,833	7,764,853
Accountability for property held in trust	1,649,945	1,654,130	1,670,670	1,633,405
Due to other fund groups	1,571,006	10,683,833	10,527,507	1,727,332
	$10,949,035	$23,949,985	$22,884,505	$12,014,515
Bond Proceeds and Insurance Clearance Fund				
ASSETS				
Cash	$ -	$ 3,018,448	$ 3,011,676	$ 6,772
LIABILITIES				
Accounts payable and accrued liabilities	$ 781	$ -	$ 781	$ -
Due to other fund groups	(781)	3,018,448	3,010,895	6,772
	$ -	$ 3,018,448	$ 3,011,676	$ 6,772

(Continued)

(Continued)

	Balance July 1, 1979	Additions	Deductions	Balance June 30, 1980
Trust and Legacy Fund				
ASSETS				
Cash	$ 12,846	$38,136,034	$38,129,472	$ 19,408
Investments	29,501,901	26,647,987	-	56,149,888
	$29,514,747	$64,784,021	$38,129,472	$56,169,296
LIABILITIES				
Due to other fund groups	$29,514,747	$38,136,034	$11,481,485	$56,169,296
Agency Fund				
ASSETS				
Cash	$ 941,514	$ 611,267	$ 1,193,895	$ 358,886
Accounts receivable	1,278,896	563,252	484,534	1,357,614
Allowance for uncollectible accounts	(1,278,896)	(563,252)	(484,534)	(1,357,614)
Property held in trust	529,661	91,419	80,893	540,187
	$ 1,471,175	$ 702,686	$ 1,274,788	$ 899,073
LIABILITIES				
Due to other fund groups	$ 1,471,175	$ 702,686	$ 1,274,788	$ 899,073

The accompanying notes are an integral part of the financial statements.

MONTANA DEPARTMENT OF REVENUE

NOTES TO FINANCIAL STATEMENTS

June 30, 1980

1. Summary of significant accounting policies

This summary of significant accounting policies of the Department of Revenue is presented to assist in understanding the Department's financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

The accompanying financial statements are prepared in accordance with recommendations contained in the American Institute of Certified Public Accountants' Industry Audit Guide, Audits of State and Local Government Units, and the National Council on Governmental Accounting's Statement 1, Governmental Accounting and Financial Reporting Principles.

History

The Department of Revenue was created in 1971 by the Executive Reorganization Act. The Department presently consists of 13 divisions. The primary function of the Department is the uniform administration of all State taxes.

Basis of accounting

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS) and departmental records.

The State of Montana utilizes the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable, available to finance expenditures of the fiscal period, and are not received at the normal time of receipt.

The accounts of the Department are maintained in accordance with the principles of fund accounting. Resources are classified for operating purposes into funds that are identified by the limitations and restrictions placed upon their use.

Separate accounts are maintained for each fund. Accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements.

1. Summary of significant accounting policies (Continued)

Basis of accounting (Continued)

Governmental fund types are those through which most governmental functions typically are financed. The functions of the governmental fund types are as follows:

General Fund - To classify financial activities relating to the general operation of State government.

Earmarked Revenue Fund - To classify financial activities relating to receipts and related disbursements specifically earmarked by law for the purpose of conducting a specific governmental operation.

Sinking Fund - To classify financial activities relating to the retirement of State long-term debts.

Federal and Private Revenue Fund - To classify financial activities relating to expendible monies received from Federal or private sources, including trust income, which are to be used for the operation of State government.

Proprietary fund types are used to account for a government's on-going organizations and activities which are similar to those often found in the private sector. The function of the proprietary fund type is as follows:

Revolving fund - To classify financial activities relating to enterprise or reimbursable-type governmental operations.

Fiduciary fund types are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other government units, and/or other funds. The functions of the fiduciary fund types are as follows:

Federal and Private Grant Clearance Fund - To classify financial activities relating to: (A) expendible monies received from Federal or private sources, including trust income, which the State disburses to persons, associations or units of local government for uses other than operating the State government; or (B) collections, where the precise disposition is unknown at the time of collection, and the subsequent dispositions.

Bond Proceeds and Insurance Clearance Fund - To classify financial activities relating to monies obtained from the sale of bonds, certificates of indebtedness or similar obligations and/or monies indemnifying the State for loss or damage of property, and the subsequent dispositions of amounts received.

1. Summary of significant accounting policies (Continued)

Basis of accounting (Continued)

Trust and Legacy Fund - To classify financial activities relating to monies which the State administers as a trustee pursuant to a law or trust agreement restricting the use of the money for a specified purpose and prohibiting the expenditure of the principle for a period of at least five years.

Agency Fund - To classify financial activities relating to monies held by the State as a custodian or agent and includes, but is not limited to, monies held for the purpose of paying insurance or retirement benefits, monies arising from lost or unclaimed properties and monies of a similar nature.

Accounts receivable

Except for the Revolving Fund, all accounts receivable have not been recorded as revenue and are fully reserved.

Inventories

Inventories are stated at acquisition cost, which is lower than market.

Fixed assets

Assets acquired through the Department's General Fund are reflected in a separate account group on the balance sheet. The costs of such assets are treated as expenditures in the General Fund in the year of asset acquisition and charged directly to investment in general fixed assets fund equity.

Assets acquired through the Revolving Fund are reflected as assets on the Revolving Fund balance sheet.

Depreciation of Revolving Fund assets is provided by the straight-line method over a 10 year useful life and is charged directly against operations.

2. Inventories

Inventories consist of the following:

Liquor purchased for resale	$9,551,416
Supplies for Central Supply	72,259
	$9,623,675

3. Investments

The Department's investments are made by the State Board of Investments. The investments at June 30, 1980 consist of the following:

	Cost	Market value
Montana Short-Term Investment Pool	$12,230,153	$12,230,153
Federal securities	5,627,408	5,618,402
Other	38,307,663	35,069,521
	$56,167,224	$52,918,076

The investments at June 30, 1980 are owned by the following funds:

	Cost	Market value
Federal and Private Grant Clearance Fund	$ 17,336	$ 16,333
Trust and Legacy Fund	56,149,888	52,901,743
	$56,167,224	$52,918,076

4. Fixed assets

Fixed assets consist of the following:

	Proprietary Fund Type	Account Group	Totals
	Revolving	General Fixed Assets	(Memorandum Only)
Office equipment	$207,405	$370,983	$ 578,388
Vehicles	31,137	287,853	318,990
Furniture and fixtures	119,377	135,483	254,860
Shop equipment	109,450	-	109,450
Data processing equipment	-	70,780	70,780
Other	11,815	19,611	31,426
	$479,184	$884,710	$1,363,894

5. Retirement plan

The Department's employees are covered by the Public Employee's Retirement System, a contributory plan under which the State contributes 5.95% of an employee's gross wages and the employee contributes 6% of his gross wages. The Department's contributions to this plan were $691,900 for the fiscal year ended June 30, 1980.

6. Leases

Liquor leases - The Liquor Division had leases on 83 State liquor stores at June 30, 1980. All of these leases are classified as operating leases. These leases are generally for five or ten years with renewal options. However, if the Department does not receive funding

6. Leases (Continued)

from the State to continue operating retail liquor stores, the Department can terminate the leases upon giving sixty days notice to the lessors. As a result, the leases are considered to be cancellable. Rent expense for liquor store leases for the fiscal year ended June 30, 1980 was approximately $545,000.

Other leases - The Department also leases office space and equipment from various vendors and the Department of Administration. The majority of these leases expire within one year and are treated as operating leases. Rent expense for these leases for the fiscal year ended June 30, 1980 was approximately $295,000.

7. Contingent liabilities

Based upon a calendar year, employees can accumulate vacation leave up to twice the number of leave days earned annually. Sick leave earned annually can be accumulated without limitation. Upon termination, the employee is paid all accumulated vacation leave and 25% of the accumulated sick leave. The vacation leave and sick leave are recorded as expenditures when paid. The liabilities associated with accumulated vacation and sick leave at June 30,1980 were not determinable.

The 1979 Legislature gave a blanket appropriation to the Department for funds to maintain wine and liquor inventories and to operate the State liquor monopoly. The Department must return $13 million or more of liquor profits, exclusive of liquor excise taxes, to the General Fund during the 1981 biennuim. During the fiscal year ended June 30, 1980, approximately $5.5 million was returned to the General Fund. It is possible that the Department may not be able to return the remaining $7.5 million to the General Fund.

The 1979 Legislature passed Senate Bill 182 which allocated a portion of the oil production and natural gas taxes to the counties in which the taxes were collected, effective July 1, 1979. The portion to be allocated is based upon annual production increases. The counties have requested an interpretation from the Attorney General regarding the calculation of proceeds due them. Pending such interpretation, the monies have not been disbursed, and the Department has accrued a liability of $850,000 which has been reflected as accounts payable. In the opinion of the Department, monies accrued are adequate to meet the liabilities to the counties once an interpretation has been made as to the method of calculation.

In June 1978, plaintiffs filed suit against the State of Montana challenging the constitutionality of the Montana Coal Severance Tax, arguing that the 30% tax is a burden on interstate commerce. The plaintiffs are seeking a reduction in the tax rate. As of June 30, 1980, approximately $120 million has been paid under protest to the Department. The State filed a motion to dismiss the lawsuit, and the motion was granted by the District Court. The Montana Supreme

7. Contingent liabilities (Continued)

Court upheld the District Court's dismissal in July, 1980. The plaintiffs have appealed the case to the United States Supreme Court. A decision is currently pending as to whether the United States Supreme Court will hear the case. If the State should ultimately lose the case, it is possible the State could be liable for all or a portion of the funds paid under protest.

A D D I T I O N A L   I N F O R M A T I O N

Detail Schedule of Revenues

	Governmental Fund Types			
	General	Earmarked Revenue	Sinking	Federal and Private Revenue
Taxes				
Beer	$ 1,216,504	$ 2,027,507	$ -	$ -
Cement	129,886	-	-	-
Cigarette	3,967,437	-	4,168,000	-
Coal production	20,222,579	18,617,981	1,302,518	-
Corporation license and income	26,658,417	10,413,444	4,581,915	-
Electrical energy	2,060,960	-	-	-
Freight line company	956,357	-	-	-
Gasoline license	-	39,917,484	-	-
Diesel fuel license	-	10,787,517	-	-
Aviation fuel	-	384,215	-	-
Individual income	86,391,870	33,746,825	14,848,603	-
Inheritance	8,537,242	-	-	-
Liquor excise	5,764,741	-	-	-
Liquor license	-	2,359,941	-	-
Metal mines	2,516,820	-	-	-
Natural gas	1,264,024	-	-	-
Oil production	10,544,555	-	-	-
Property	162,185	3,710	-	-
National housing	-	672	-	-
University millage	-	9,577,441	-	-
Public contractor	1,728,618	-	-	-
Telephone license	1,783,776	-	-	-
Vermiculite license	11,801	-	-	-
Tobacco	-	-	397,828	-
Electric and telephone co-op	11,030	-	-	-
Consumer counsel	-	384,652	-	-
Tramway	11,719	-	-	-
Wine	1,312,406	94,345	-	-
	175,252,927	128,315,734	25,298,864	-
Income and collections				
Liquor and wine sales	-	-	-	-
Data entry service fees	-	-	-	-
Child support and welfare fraud collection	-	-	-	864,444
Other	4,542	-	-	-
	4,542	-	-	864,444

(Continued)

Proprietary Fund Type Revolving	Totals (Memorandum Only)
$ -	$ 3,244,011
-	129,886
-	8,135,437
-	40,143,078
-	41,653,776
-	2,060,960
-	956,357
-	39,917,484
-	10,787,517
-	384,215
-	134,987,298
-	8,537,242
-	5,764,741
1,243,022	3,602,963
-	2,516,820
-	1,264,024
-	10,544,555
-	165,895
-	672
-	9,577,441
-	1,728,618
-	1,783,776
-	11,801
-	397,828
-	11,030
-	384,652
-	11,719
188,690	1,595,441
1,431,712	330,299,237
47,996,946	47,996,946
196,074	196,074
-	864,444
-	4,542
48,193,020	49,062,006

(Continued)

(Continued)

	Governmental Fund Types			
	General	Earmarked Revenue	Sinking	Federal and Private Revenue
Licenses and permits				
Cigarette sales license	$ -	$ 20,115	$ -	$ -
Contractor license	164,620	-	-	-
Fuel license and permits	31	-	-	-
Chain store license	307,521	-	-	-
Liquor permit	775,090	-	-	-
Beer license	243,930	-	-	-
Wine license	140,775	-	-	-
Excess new alcoholic beverage license fee	37,855	-	-	-
Transfer of alcohol beverage license	44,386	-	-	-
Alcohol vendor permit and agent registration fee	3,675	-	-	-
Camper decal fee	12,185	-	-	-
	1,730,068	20,115	-	-
Fiduciary and trust				
Abandoned property	-	31,963	-	-
Federal assistance				
CETA	-	-	-	148,876
Sales of merchandise				
Liquor license booklets	1,159	-	-	-
Distiller's special sales report booklets	5,570	-	-	-
Merchandise	-	-	-	-
	6,729	-	-	-
Other				
Service fees	4,938	-	-	-
Sale of equipment	-	-	-	-
Fines	2,850	-	-	-
Reimbursements	210	-	-	-
Donations	-	24,891	-	-
	7,998	24,891	-	-
Total by fund	$177,002,264	$128,392,703	$25,298,864	$1,013,320

(Continued)

Proprietary Fund Type Revolving	Totals (Memorandum Only)
$ -	$ 20,115
-	164,620
-	31
-	307,521
-	775,090
-	243,930
-	140,775
-	37,855
-	44,386
-	3,675
-	12,185
-	1,750,183
-	31,963
-	148,876
-	1,159
-	5,570
80,940	80,940
80,940	87,669
-	4,938
3,000	3,000
-	2,850
-	210
-	24,891
3,000	35,889
$49,708,672	$381,415,823

tail Schedule of Expenditures

	Director's Office	Audit and Accounting	Recovery Services	Legal	Liquor	Income Tax	Corporation Tax
yroll	$ 99,092	$373,241	$504,159	$233,740	$ 3,838,960	$ 845,017	$292,048
ntracted services	47,745	32,520	152,167	3,367	532,264	352,034	57,297
pplies and materials	1,327	8,164	21,565	8,914	74,940	15,526	4,837
mmunications	3,463	7,544	37,044	6,371	66,339	97,568	7,280
avel	4,267	6,073	8,554	7,566	19,675	6,946	47,374
nt	2,470	11,836	25,798	10,657	571,790	42,280	6,895
ilities	-	-	-	307	134,610	1,299	-
pairs and maintenance	409	2,740	2,853	2,056	27,479	3,729	1,220
her expenses	1,192	873	3,693	1,447	14,534	1,882	3,433
preciation	-	-	-	-	51,569	-	-
st of goods sold	-	-	-	-	26,832,276	-	-
uipment	1,090	3,322	12,991	4,996	3,828	1,934	5,122
cal assistance - State sources	-	-	-	-	2,649,959	-	-
cal assistance - other sources	-	-	-	-	-	-	-
nefits and claims - State sources	244,243	-	-	-	-	-	-
nefits and claims - other sources	-	-	-	-	-	-	-
	$405,298	$446,313	$768,824	$279,421	$34,818,223	$1,368,215	$425,506

Property Valuation	Miscellaneous Tax	Motor Fuels Tax	Operations	Investigations	Inheritance Tax	Homestead Tax Relief	Research and Information	Totals (Memorandum Only)
$5,870,543	$206,862	$341,814	$208,512	$229,665	$132,000	$ 217,649	$647,141	$14,040,443
425,112	9,343	25,361	10,708	5,248	1,480	83,718	46,518	1,784,882
171,741	5,118	6,970	3,279	6,190	943	432	4,206	334,152
168,013	13,090	16,269	3,812	9,831	4,239	45,070	7,932	493,865
171,685	20,100	11,549	2,313	4,629	169	19	1,052	311,971
59,065	4,490	-	7,407	7,494	4,490	1,152	85,480	841,304
1,455	-	-	-	-	-	-	-	137,671
67,227	2,683	1,710	2,136	3,323	232	27	13,127	130,951
8,183	641	1,866	346	415	213	68	3,920	42,706
-	-	-	-	-	-	-	-	51,569
-	-	-	62,519	-	-	-	-	26,894,795
33,000	12,583	437	8,750	9,119	206	5,750	771	103,899
-	-	-	-	-	-	-	-	2,649,959
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	9,563,807	-	9,808,050
-	-	-	-	-	-	-	-	-
$6,976,024	$274,910	$405,976	$309,782	$275,914	$143,972	$9,917,692	$810,147	$57,626,217

Detail of Other Financing Sources and Uses

	Governmental Fund Types			Proprietary Fund Type	
	General Fund	Earmarked Revenue Fund	Sinking Fund	Revolving Fund	Totals (Memorandum Only)
Operating transfers in:					
Cash contribution of liquor profits from Revolving Fund	$ 5,500,887	$ -	$ -	$ -	$ 5,500,887
Operating transfers - out:					
Cash distributed to administering agencies	$153,930,140	$116,653,842	$25,295,870	$ -	$295,879,852
Cash contributed to university system	-	9,349,828	-	-	9,349,828
Cash contributed to General Fund from closing of accounting entities	-	32,595	116,496	-	149,091
Wine, liquor license and liquor excise taxes collected for and distributed to General and Earmarked Revenue Funds	-	-	-	9,547,967	9,547,967
Cash contribution of liquor profits to the General Fund	-	-	-	5,500,887	5,500,887
	$153,930,140	$126,036,265	$25,412,366	$15,048,854	$320,427,625

The operating transfers out for cash distributed to administering agencies represents all year-end cash balances accumulated for accounting entities that the Department collects revenues for, but does not have spending authority over. As a result, at year-end, all cash for these entities is automatically transferred by SBAS to the agencies that administer the accounting entities.

Detail of Additions and Deductions in the Due To Other Fund Groups Account - All Fiduciary Fund Types

Federal and Private Grant Clearance Fund

Additions consisted of the following:	
Coal production taxes	$ 872,294
Corporation taxes	3,969,413
Natural gas taxes	700,000
Oil production taxes	150,000
Investment earnings	3,293,660
Welfare fraud and child support	1,698,466
	$10,683,833

Deductions consisted of the following:	
Investment earnings	$ 796,000
Corporation license taxes paid to local governments	3,945,244
Coal production taxes paid to counties	872,294
Oil production taxes paid to counties	700,000
Natural gas taxes paid to counties	150,000
Public contractor taxes contributed to the General Fund	779,912
Child support payments	1,613,387
Inheritance tax settlements	1,670,670
	$10,527,507

Bond Proceeds and Insurance Clearance Fund

Additions consisted of the following:	
Cigarette taxes	$ 3,018,448

Deductions consisted of the following:	
Payments of accounts payable and accrued liabilities	$ 781
Cash distributed to administering agency	3,010,114
	$ 3,010,895

Trust and Legacy Fund

Additions consisted of the following:	
Coal production taxes	$34,109,637
Resource indemnity taxes	3,630,323
Abandoned property	396,074
	$38,136,034

Deductions consisted of the following:	
Cash distributed to administering agency	$11,481,485

(Continued)

(Continued)

Agency Fund

Additions consisted of the following:	
Bad debt collections	$ 225,733
Unclaimed estate property	306,830
Escheated estate property	78,704
Cash compliance bonds	91,419
	$ 702,686

Deductions consisted of the following:	
Bad debt collections remitted to agencies	$ 197,284
Commissions paid to collection agents	22,001
Unclaimed property distributions	377,901
Escheated property distributions	587,584
Cash compliance bonds refunded or used as offset against unpaid taxes	84,021
Cash distributed to School Trust Fund	5,997
	$ 1,274,788

F I N D I N G S   A N D   R E C O M M E N D A T I O N S

Fox & Company

Fox

Certified Public Accountants

The Legislative Audit Committee
The Montana State Legislature

We have examined the financial statements of the Department of Revenue for the year ended June 30, 1980, and have issued our report thereon dated September 26, 1980. As part of our examination, we made a study and evaluation of the Department's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Department's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on a system of internal accounting control taken as a whole.

The management of the Department of Revenue is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal control of the Department of Revenue taken as a whole. However, our study and evaluation did disclose the weaknesses set forth on the following pages that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the Department of Revenue may occur and not be detected within a timely period.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the fiscal year ended June 30, 1980 financial statements, and this report does not affect our audit report on these financial statements dated September 26, 1980.

Fox + Company

Audit and Accounting Division

1. Payroll

The Department of Revenue utilizes a form entitled "Personnel Action Report" (PAR) to document changes in an employee's position, including hirings, terminations, pay increases and promotions.

A PAR is usually completed and signed by the employee's supervisor. It is then approved and signed by both the division administrator and a personnel officer.

After proper approvals have been obtained, the PAR is forwarded to the Audit and Accounting Division payroll department where a "Payroll Status Form" (PSF) is prepared. The PSF is approved and signed by the Audit and Accounting Division administrator and forwarded to the Department of Administration Central Payroll. Copies of both the PAR and the PSF are retained in the employee's personnel file.

During our examination of payroll transactions we noted the following:

A. For 11 employees, or 18% of the employees tested, a PAR could not be located in support of the employee's current position.

B. For 12 employees, or 20% of the employees tested, the PARs did not contain the necessary signatures as evidence of review and approval. Of these 12 PARs, 7 were not signed by a supervisor, 3 were not signed by an administrator, and 2 were missing both the supervisor's and the administrator's signature.

C. For 2 employees, or 3% of the employees tested, their personnel file did not contain a PSF in support of the employee's current position.

D. For all employees tested, only the original copies of the PSFs contained the Audit and Accounting Division administrator's signature. The copies maintained in the employees' personnel files were not signed.

While the aforementioned instances made it difficult to verify that employees were being paid proper amounts, and that all status changes were properly authorized, we were able to satisfy ourselves through alternative procedures.

To improve the operation of the payroll function we recommend the following:

1. Payroll (Continued)

1. All personnel action reports should be signed by the division administrator and a personnel officer, as evidence of their review and approval. In addition, the employee's supervisor should sign the PAR if he has prepared it. The payroll department should require that every PAR contain these three signatures before the PAR is filed in the employee's personnel file.

2. Signed copies of payroll status forms should be maintained in the employees' personnel files.

3. A workpaper should be designed and added to each employee's personnel file documenting all changes in the employee's salary or wage, with the reasons for any such change. The workpaper could be set up with columnar headings including: date, purpose, old rate, new rate, and initials. The changes noted on this workpaper would be supported by personnel action reports and payroll status forms contained in the files.

4. The payroll department should review all personnel files at least annually to determine that they contain the documentation mentioned above. The person performing this review should initial the workpaper mentioned in recommendation three above as evidence of performing the procedure.

Implementation of the above recommendations would provide better audit evidence that internal control procedures are operating, and would result in more orderly and complete personnel files.

2. Accounting for bad debts

MCA Sec. 17-4-104 authorizes the Department of Revenue "to provide a collection service for the general purpose of centralizing the collection of all debts owing to the State".

At present, the Department recognizes income at the time bad debts are transferred to the Department. However, expenditures are not recognized until the debts are collected, and the monies are remitted back to the agencies. In addition, the balance sheet does not reflect an allowance for uncollectible accounts, or a liability to other agencies for monies collected and not distributed. While this accounting is used solely for internal reporting purposes, it is not in accordance with generally accepted accounting principles.

2. Accounting for bad debts (Continued)

We acknowledge that the present system is used to fulfill internal reporting criteria and is mandated in part by restrictions created by SBAS. However, we emphasize the importance of preparing financial statements in accordance with generally accepted accounting principles, especially when the financial statements are distributed to external users. To prepare these statements, we recommend the following:

1. Income and expenditures as they are currently recognized should be reported as separate transfers in and transfers out to reflect the notices of bad debts to be collected that are received from other agencies, and the subsequent collections and remittances of these same debts back to the agencies.

2. Bad debts remaining with the Department (those not yet written off or collected and remitted back to other agencies) should be reflected as accounts receivable. In addition, the entire amount of these receivables should be offset by an allowance for uncollectible accounts.

3. At year end, a liability account should be established for the sum total of monies collected but not yet distributed to other agencies.

We feel that the above recommendations would provide the internal accounting for the bad debts collection service to be in accordance with generally accepted accounting principles.

3. Bad debt collections

During our examination of the bad debts collection service we noted the following weaknesses:

A. The bad debts collection department of the Audit and Accounting Division maintains a detailed listing of bad debts separate from the SBAS system. This detailed listing was not reconciled on a monthly basis to SBAS, and was not reconciled at June 30, 1980.

B. A large number of accounts with very small balances were being pursued for collection because the Department has not established a definite dollar limit for pursuing collection.

To improve the operation of the bad debts collection function, we recommend the following:

1. The internally generated detail listing of bad debts should be reconciled to SBAS on a monthly basis, or as a minimum, at year end.

3. Bad debt collections (Continued)

2. The Department should establish a minimum dollar limit for pursuing the collection of bad debts, and that bad debts from other agencies less than this amount not be accepted.

3. The Department should pursue legislation to allow the Department to retain a collection fee based on a percentage of all monies collected. We feel this would result in a more active collection function, and would better allocate the cost of performing the collection service to the appropriate State agencies.

4. The Department should provide for additional personnel to work in the bad debt collection area. Without additional personnel, we do not feel that the bad debt collection function can operate effectively. In addition, if fees could be charged to other agencies for collection of their debts, these fees could in part be used to support additional personnel.

4. Liquor inventory accrual

During our examination of liquor inventory accounting procedures, we noted that Audit & Accounting Division personnel were not accruing inventory purchases in accordance with generally accepted accounting principles.

All liquor is purchased F.O.B. shipping point, with title passing to the Department of Revenue at the point liquor is shipped from the distiller. However, we noted that inventory which had been shipped prior to year end was not accrued in the fiscal year end inventory figure.

We recommend that the inventory accrual procedures made at year end be revised to include all shipments made prior to year end. This would allow the Department to reflect an inventory figure which is proper based on generally accepted accounting principles.

5. Property accountability and management system

Chapter 1700, Property Accounting, in Volume II of the Montana Operations Manual sets forth the policies and procedures to be followed in order to implement a Property Accountability and Management System (PAMS).

The Department of Revenue implemented the PAMS system in fiscal year 1980. In our review of the implementation we noted the following problems:

A. A number of assets included on the original PAMS listing were listed at improper amounts and with improper acquisition dates.

5. Property accountability and management system (continued)

B. Certain assets costing in excess of $200 in existence at year-end that were not included in the PAMS run.

C. A large number of similar assets were not included on the PAMS listing because of the difficulty in determining whether the assets cost in excess of $200.

Through our inquiries we were able to determine that the above problems were a result of trying to implement PAMS in a very short time. Because of further time constraints, proper reviews of the original implementation were not performed until after year-end. In addition, property officers of the various divisions were not completely aware of their responsibilities, and as a result, did not do a thorough and accurate job in identifying assets to be included on PAMS.

Based upon our recommendation, the Department reviewed and brought PAMS up to date prior to the issuance of our audit report.

To prevent further problems with the PAMS system in the future, we recommend the following:

1. All property officers should be made aware of Sec. 2-1710:113 of the Montana Operations Manual. This section documents the responsibilities of property officers. By reviewing this section, each property officer should be able to fully understand his responsibilities in the system.

2. The Department should identify groups of similar assets. Sec. 2-1760:23 of the Montana Operations Manual provides that the Department may use the "aggregate tag" method to identify assets of a like group which individually cost under $200, but whose total cost exceeds $200 (the limit for implementation in the PAMS system). This would not only provide additional accountability over assets costing less than $200, but would also facilitate the periodic physical identification of fixed assets.

6. Consolidated balance sheet by fund

Generally accepted accounting principles as set forth by the National Council on Governmental Accounting, Statement 1, "Governmental Accounting and Financial Reporting Principles" require the presentation of a consolidated balance sheet by fund. At present, the only balance sheet report prepared by SBAS is report 411 "non-consolidated general ledger".

6. Consolidated balance sheet by fund (Continued)

Report 411 details the balance sheet of each separate accounting entity within the fund, but does not provide a consolidation of those entities into funds. In addition, the 411 does not indicate whether the accounting entity is consolidated or unconsolidated, the difference being whether the Department of Revenue is the administering agency.

As a result of the above, to prepare a consolidated balance sheet, Department personnel must create a consolidated statement manually, a process which is very time consuming.

We recommend that the Department request a consolidated fund balance sheet from SBAS.

7. Expenditures by accounting entity

SBAS does not provide a monthly report detailing expenditure transactions by accounting entity. All current SBAS reports detail expenditures according to programs and reporting and responsibility centers within the programs.

Because of the above, it is very difficult to analyze the effect of any month's detail expenditures on a given accounting entity, thus providing a poor audit trail.

In pursuing this matter, we were able to determine that SBAS does create a record of these transactions; however, it is not provided to agencies and is destroyed monthly. We recommend that the Department request from SBAS a monthly detail listing of expenditures by accounting entity.

Recovery Services Division

8. Child support transfer warrant claims

Department of Revenue policy requires that all invoices in support of transfer warrant claims be initialled by an authorized official of the responsibility center to which the expenditure will be charged. This evidence of approval is required before payment of the invoice will be processed by the Audit & Accounting Division.

During our examination of transfer warrant claim transactions, we noted that transfer warrant claims processed to distribute child support payments were sent to the Audit & Accounting Division already prepared by the responsibility center personnel. There was no indication on these transfer warrant claims of approval by the authorized official in the responsibility center.

8. Child support transfer warrant claims (Continued)

We recommend that supporting documents for all transfer warrant claims prepared outside of the Audit & Accounting Division be initialled by an authorized official in the responsibility center as evidence of review and approval.

Liquor Division

9. Liquor purchase order modifications

All liquor purchases require the use of a purchase order. The purchase order must be approved and signed by the Liquor Division administrator.

Purchase order modifications are used when changes are made to previously submitted purchase orders.

During our transaction examination of liquor purchases, we noted two instances where more liquor was received than was supported by a purchase order. Although the liquor was properly received and included on reviewing reports, there were no purchase order modifications in support of the additional inventory received. We also noted that purchase order modifications do not provide for the signature of the Liquor Division administrator as evidence of his review and approval.

We recommend that a purchase order modification be completed whenever an order of liquor is modified, and that the modification be signed by the Liquor Division administrator as evidence of his review and approval. We feel that this recommendation would not only provide tangible audit evidence of an internal control procedure, but would also make the present policy more consistent between purchase orders and modifications.

10. Liquor, beer & wine license fees

Fees for liquor, beer and wine licenses for the 1981 fiscal year were collected primarily in the months of May and June of 1980. As a result, the collections of these fees were recorded as receipts collected in advance.

During our examination of these receipts collected in advance, we noted that a worksheet had been prepared by Audit & Accounting Division personnel detailing the total amount of fees processed on collection reports in fiscal year 1980. In reviewing this worksheet, we noted the following:

Liquor Division (Continued)

10. Liquor, beer & wine license fees (Continued)

A. Based upon an arbitrarily selected date of May 13, 1980, the Department chose to record all receipts after that date as receipts collected in advance. However, during the period May 13 to June 30, 1980, fees were received for special permit activities occurring in the 1980 fiscal year. As a result, these amounts were improperly included as receipts collected in advance.

B. We also noted that some collections were recorded twice on the worksheet, and other collections were not recorded on the worksheet.

In order to determine a more accurate amount of license fees collected in advance, we recommend that the Liquor Division prepare a schedule showing the amount of fees received during the year that pertain to the next fiscal year. This schedule should be reviewed by Audit & Accounting Division personnel and utilized to determine the amount of receipts collected in advance to be reported in the year-end financial statements.

Miscellaneous Tax Division

11. Public contractors tax

Under MCA Sec. 15-50-207 the Miscellaneous Tax Division is required to collect a tax of 1% of the gross contract amount on all public construction contracts. This tax is to be refunded to the contractors based upon a credit for other taxes paid (personal property, corporation and income tax). The tax is paid by the general contractor and withheld from payments to subcontractors. The general contractor then submits forms to the Department on a monthly basis crediting the subcontractors for their portion of the 1% tax.

This tax requires an extremely cumbersome accounting process. Separate ledger cards must be maintained for all contractors and subcontractors and must be posted on a monthly basis. Because of this process, we noted that forms filed by general contractors up to twelve months ago had not been filed by the Division. In addition, we noted that the account was not being reconciled to SBAS on a monthly basis.

We recommend that the Department study this problem extensively to analyze the best course of corrective action. The Department should consider automating the system, or pursuing legislation to simplify the accounting.

While we do recognize the extent of the accounting problems created by this tax, we also emphasize the need to reconcile the account to SBAS on a monthly basis, or as a minimum, at year-end.

Motor Fuels Tax Division

12. Accounts receivable

At present, the Motor Fuels Tax Division utilizes a manual system to record all accounts receivable. This system involves the use of a large number of individual ledger cards which must be posted and updated manually.

We feel the manual system is not adequate to meet the needs of the Division. In addition to being extremely cumbersome and very difficult to reconcile to SBAS on a monthly basis, the system is also susceptible to the loss or theft of ledger cards.

We recommend that the Department consider computerizing the recording of receivables for the Motor Fuels Tax Division. This should include considering alternative computerized accounting systems such as mini-computers or other in-house systems designed to support the accounting requirements of the Motor Fuels Tax Division. We feel that this would make the accounting more efficient, and would also improve the internal controls over accounts receivable.

13. Cash bonds

The Motor Fuels Tax Division requires that all parties selling diesel fuel or using diesel fuel in a business be bonded to insure payment of diesel fuel taxes. This is accomplished by the individual obtaining a fidelity bond or assigning a certificate of deposit as collateral with the Division.

Presently there are $540,000 worth of marketable securities maintained at the Division in a safe. Two or more persons have access to the safe, including the individual who reconciles the account, maintains the accounting records, and assigns the cashier number upon receipt of the bond.

This situation evidences an improper segregation of duties in that the individual has both access to the assets, and also controls the accounting for the assets.

We recommend that access to the bonds be controlled by a person independent of the accounting function. This access could be controlled by the Division administrator or his assistant.

We feel that this recommendation would improve the internal controls over the handling and accounting for cash bonds.

Research and Information Division

14. Data processing

During our examination of the data processing functions for the Department of Revenue we noted the following:

14. Data processing (Continued)

A. The Department has not established a priority system for determining which data processing applications should be developed first.

B. Because of space limitations, the data processing facilities do not allow for adequate storage of computer output, programs and files.

C. Because of the lack of available personnel, we noted a significant backlog of computer applications to be developed as requested by various divisions.

To remedy the above problems, we recommend the following:

1. A steering committee should be created to monitor data processing operations for the Department. This committee should include representatives from each division, preferably the division administrator. The committee should be responsible for establishing a priority system for the development of computer applications. In addition, the committee should also coordinate with users to determine whether the user's current reports are useful and necessary. We noted that such a committee was in the process of being organized during our audit work.

2. The Department should investigate the possibility of obtaining both additional space and personnel to help develop the data processing function.

Action Taken on Prior Audit Recommendations

An audit of the Department was conducted for the two fiscal years ended June 30, 1977 by the Office of the Legislative Auditor. Their report contained 32 recommendations, 26 of which relate to divisions audited under this contract. As of the date of our audit field work, the Department had either fully or partially implemented 25 of the recommendations. One recommendation which the Department did not concur with had not been implemented.

Our findings and recommendations for the current year's audit include some of the items mentioned in the prior audit report.

STATE OF MONTANA

DEPARTMENT OF REVENUE
MITCHELL BUILDING
HELENA, MONTANA 59601

November 18, 1980

Legislative Audit Committee
of the Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

Gentlemen:

We have reviewed the audit report on the Department of Revenue prepared by Fox & Company, Certified Public Accountants. Our response to the recommendations contained in the report accompany this letter.

The staff of Fox & Company is to be commended for a thorough and efficient audit of our organization.

Sincerely,

Mary L. Craig

Mary L. Craig, CPA
Director

MLC:bk

Attachment

Several of the recommendations made in this report rest on the underlying assumption that there is enough flexibility in our staff to allow us to expand workloads or abandon low priority work in order to implement them. We will make a good faith attempt to implement the recommendations with which we concur. However, it should be noted that budget restrictions have already necessitated a cut in some department services and, if funding is not available, the recommendations may not be implemented in spite of our concurrence.

Recommendation 1.1

All personnel action reports should be signed by the division administrator and a personnel officer, as evidence of their review and approval. In addition, the employee's supervisor should sign the PAR if he has prepared it. The payroll department should require that every PAR contain these signatures before the PAR is filed in the employee's personnel file.

Response

We concur. We will obtain the administrator's signature on all personnel action reports and the employee's supervisor's signature if prepared by them.

Recommendation 1.2

Signed copies of payroll status forms should be maintained in the employee's personnel files.

Response

We concur. We wil maintain signed copies of payroll status forms in the employee's personnel files.

Recommendation 1.3

A workpaper should be designed and added to each employee's personnel file documenting all changes in the employee's salary or wage, with the reasons for any such change. The workpaper could be set up with columnar headings including: date, purpose, old rate, new rate, and initials. The changes noted on this workpaper would be supported by personnel action reports and payroll status forms contained in the files.

Response

We concur. We will begin preparing such workpaper with each payroll change from now on.

Recommendation 1.4

The payroll department should review all personnel files at least annually to determine that they contain the documentation mentioned above.

Recommendation 1.4 (Continued)

The person performing this review should initial the workpaper mentioned in recommendation 1.3 above as evidence of performing the procedure.

Response

We concur. A review is made annually now and it will include the above mentioned documentation in the future.

Recommendation 2.1

We acknowledge that the present system is used to fulfill internal reporting criteria and is mandated in part by restrictions created by SBAS. However, we emphasize the importance of preparing financial statements in accordance with GAAP, especially when distributed to external users. To prepare these statements we recommend the following:

Income and expenditures as they are currently recognized should be reported as separate transfers-in and transfers-out to reflect the notices of bad debts to be collected that are received from other agencies, and the subsequent collections and remittances of these same debts back to the agencies.

Response

We concur. Though the transfers of bad debts are in SBAS as a subsidiary detail item of an income control account, we do show them in financial statements as receipts-transfers of bad debts. We will further footnote our financial statements to explain the accounting in the agency accounts.

Recommendation 2.2

Bad debts remaining with the department (those not yet written off or collected and remitted back to other agencies) should be reflected as accounts receivable. In addition, the entire amount of these receivables should be offset by an allowance for uncollectible accounts.

Response

All bad debts remaining with the department are reflected as accounts receivables in the bad debt collection agency account. These accounts, by criteria established in other agencies and approved by the Department of Revenue are all uncollectible, so establishment of an allowance for uncollectible accounts does not appear necessary.

Recommendation 2.3

At year end, a liability account should be established for the sum total of monies collected but not yet distributed to other agencies.

Response

Because of fund balance of an agency account is essentially a liability account, we believe we comply with the auditor's recommendation. We will footnote our statements to explain the nature of fund balance in the agency account.

Recommendation 3.1

The internally generated detail listing of bad debts should be reconciled to SBAS on a monthly basis, or as a minimum, at year end.

Response

We concur and will periodically reconcile our automated Bad Debt System to SBAS.

Reconmmendation 3.2

The department should establish a minimum dollar limit for pursuing the collection of bad debts and that bad debts from other agencies less than this amount not be accepted.

Response

Minimum dollar limits have been established for the different types of collections we are involved in but we have been unable, with existing staff, to purge our system of debts that do not meet the minimums. Many small debts existed in the system because the only collection effort made is the tax offset which represents very little cost.

We also do not plan to set minimum limits on the transfer of bad debts to this department because we feel we represent the mechanism by which other departments can formally clean up their bad debts and this service outweighs our cost of processing these debts.

Recommendation 3.3

The department should pursue legislation to allow the department to retain a collection fee based on a percentage of all monies collected. We feel this would result in a more active collection function, and would better allocate the cost of performing the collection service to the appropriate state agencies.

Response

We concur. However, departmental priorities and limitations on legislation have not allowed our proposal to be introduced to the legislature to-date.

Recommendation 3.4

The department should provide for additional personnel to work in the bad debts collection area. Without additional personnel, we do not

Recommendation 3.4 (Continued)

feel that the bad debt collection function can operate effectively. In addition, if fees could be charged to other agencies for collection of their debts, these fees could in part be used to support additional personnel.

Response

We concur and have submitted a budget modification request for the 82-83 biennium asking for more personnel.

Recommendation 4

We recommend that the inventory accrual procedures made at year end be revised to include all shipments made prior to year end. This would allow the department to reflect an inventory figure which is proper based on generally accepted accounting principles.

Response

We concur. Effective June 30, 1980 we will use shipping date as the criteria for accruing liquor purchases and inventories.

Recommendation 5

To prevent further problems with the PAMS system in the future, we recommend the following:

a. All property officers should be made aware of Sec. 2-1710:113 of the Montana Operations Manual. This section documents the responsibilities of property officers. By reviewing this section, each property officer should be able to fully understand his responsibilities in the system.

b. The department should identify groups of similar assets. Sec. 2-1760:23 of the Montana Operations Manual provides that the department may use the "aggregate tag" method to identify assets of a like group which individually cost under $200, but whose total cost exceeds $200 (the limit for implementation in the PAMS system). This would not only provide additional accountability over assets costing less than $200, but would also facilitate the periodic physical identification of fixed assets.

Response

We concur and have informed all property officers of their responsibilities by memo. With all newly acquired assets, we will use the "aggregate tag" method to identify them.

Recommendation 6

We recommend that the department request a consolidated fund balance sheet from SBAS.

Response

We concur and will request such a report.

Recommendation 7

We recommend that the department request from SBAS, a monthly detail listing of expenditures by accounting entity.

Response

We concur and have discussed this problem with the Department of Administration who assures us that they are planning modifications to SBAS that will satisfy the recommendation.

Recommendation 8

We recommend that supporting documents for all transfer warrant claims prepared outside of the Audit and Accounting Division be initialled by an authorized official in the responsibility center as evidence of review and approval.

Response

We concur and all transfer warrant claims prepared outside Audit and Accounting Division will be required to have indication of authorization in the other divisions.

Recommendation 9

We recommend that a purchase order modification be completed whenever an order of liquor is modified, and that the modification be signed by the Liquor Division administrator as evidence of his review and approval. We feel that this recommendation would not only provide tangible audit evidence of an internal control procedure, but would also make the present policy more consistent between purchase orders and modifications.

Response

We concur and will implement preparation of such purchase order modifications as soon as possible.

Recommendation 10

In order to determine a more accurate amount of license fees collected in advance, we recommend that the Liquor Division prepare a schedule showing the amount of fees received during the year that pertain to the next fiscal year. This schedule should be reviewed by Audit and Accounting Division personnel and utilized to determine the amount of receipts collected in advance to be reported in the year end financial statements.

Response

We concur and will implement the procedure recommended for fiscal year end 1981.

Recommendation 11

We recommend that the department study this problem extensively to analyze the best course of corrective action. The department should consider automating the system, or pursuing legislation to simplify the accounting. While we recognize the extent of the accounting problems created by the tax we also emphasize the need to reconcile the account to SBAS on a monthly basis or as a minimium at fiscal year end.

Response

We concur and, within budget constraints, will explore mechanization of the contractor's gross receipts tax system. We will, at a minimum, reconcile division records to SBAS annually.

Recommendation 12

We recommend that the department fully computerize the recording of receivables for the Motor Fuels Tax Division. We feel that this would make the accounting more efficient, and would also improve the internal controls over accounts receivables.

Response

When the department receivable system was developed, Motor Fuels receivables were considered for automation but the general consensus was that before automating any receivables, a greater degree of computerization had to be implemented within the tax systems themselves. Feasibility studies, within the current computer network, do not indicate that the tax system is cost beneficial to automate. However, based on this recommendation, we will investigate the feasibility of a distributed processing system.

Recommendation 13

We recommend that access to the bonds be controlled by a person independent of the accounting function. This access could be controlled by the division administrator or his assistant.

Response

We concur. We will initiate procedures to limit access to the Motor Fuels Bond without authorization from the division administrator or his assistant.

Recommendation 14

To remedy the above problems, we recommend the following:

Recommendation 14 (Continued)

1. A steering committee should be created to monitor data processing operations for the department. This committee should include representatives from each division, preferably the division administrator. The committee should be responsible for establishing a priority system for the development of computer applications. In addition, the committee should also coordinate with users to determine whether the users' current reports are useful and necessary. We noted that such a committee was in the process of being organized during our audit work.

2. The department should investigate the possibility of obtaining both additional space and personnel to help develop the data processing function.

Response

We concur. We have established a Users' Committee to monitor data processing operations for the department and to assist in establishing department data processing priorities and coordinate with users regarding usefulness of reports. We also will request additional personnel and space for the data processing function.